

FIRE COST REPORT

A Report Prepared for the
Legislative Finance Committee

By
Barbara Smith
Associate Fiscal Analyst

September 22, 2004

Legislative Fiscal Division



www.leg.state.mt.us/css/fiscal/

PURPOSE

The main purpose of this report is to provide an update on the costs of the 2005 biennium wildfire season and the impact on the state budget. This report includes an update on the estimate of costs, the process of recovering reimbursements, and other recent developments related to 2004 wildfire costs. A preview of the 2004 wild fire season and the impact on the state budget for fiscal 2005 is also included.

FIRE COST UPDATE - FISCAL YEAR 2004

Table 1 Fiscal 2004 Estimated Fire Costs *	
Part 1	
FY 2004 Actual & Estimated Fire Costs	
Actual State Protection Costs as of September 21, 2004	\$46,900,292
DNRC -- \$43.8 million	
DMA -- \$3.1 million	
Estimated Remaining State Protection Costs	\$32,715,241
U.S. Forest Service -- \$31.3 million **	
California Department of Forestry -- \$1.4 million	
Paid & Anticipated Obligations	\$79,615,533
Part 2	
Remaining Fire Cost to the State of Montana	
Paid & Anticipated Obligations	\$79,615,534
FEMA Reimbursement ***	(\$32,336,975)
Received by DNRC -- \$12.5 million	
Received by DMA -- \$222,890	
Estimated Remaining Payment -- \$19,794,861	
Other Reimbursements - Received	(\$12,041,382)
U.S. Forest Service Reimbursement -- \$11.5 million	
DNRC Forestry Budget -- \$37,911	
BLM Reimbursement (DNRC)-- \$469,960	
BLM Reimbursement (DMA) - \$ 5,764	
National Park Service -- \$8,059	
Other Reimbursements - Anticipated	(\$1,810,747)
US Forest Service (DMA) - \$1.8 million	
Total Payments by Other Entities	(46,189,104)
Preliminary Net Cost to the State	\$33,426,430
* NOTE: All cost information is based upon the best available estimates at the time of completion and is subject to adjustment. Cost share fires are constantly in negotiation until final settlement.	
** The first payment of \$3.6 million to the US Forest Service has been made. A second payment of \$2.7 million is soon to be released.	
*** FEMA reimbursements fluctuate because some costs are outside of the declaration period and/or are not eligible for reimbursement.	

Fiscal 2004 Estimate

Part 1 of Table 1 represents the total estimated cost in fiscal 2004 to the Department of Natural Resources and Conservation (DNRC) and the Department of Military Affairs (DMA) for fire suppression efforts, including the estimated bill from the US Forest Service for assistance in fighting Montana fires. To date, the state has paid \$46.9 million to cover actual state protection costs and anticipates in additional \$32.7 million from the US Forest Service bill (\$31.3 million) and the California Department of Forestry (\$1.4 million). After these factors, the total cost of fire suppression in fiscal 2004 is approximately \$79.6 million, is a minimal increase of \$40,000 from the estimate presented at the June Legislative Finance Committee (LFC) meeting.

Part 2 of Table 1 defines the net cost of fire suppression incurred by DNRC and DMA after all reimbursements. 1) Federal Emergency Management Agency (FEMA); and 2) Other government entities for assistance provided by Montana.

1) Several fires qualified for FEMA reimbursement. The state has received \$12.5 million and is estimating additional grant awards of \$19.8 million, for a total of \$32.3 million.

2) Montana firefighters assist other agencies with fire suppression, including the US Forest Service, the Bureau of Land Management, and the National Park Service. Costs associated with this assistance are reimbursed by the responsible agency to the state, and total \$12.0 million. An additional \$1.8 million of US Forest Service assistance is due to DMA.

Total assistance received from all entities is \$46.2 million, leaving a net cost to the state for fire suppression in fiscal 2004 of 33.7 million. The Office of Budget and Program Planning (OBPP) processed documents from DNRC and DMA to utilize federal Jobs and Growth Tax Relief Reconciliation Act (JGTRRA) monies for the entire net cost of fire suppression.

UPDATES

Forest Service Bill

The Forest Service acts as a clearinghouse for fire suppression costs. The Forest Service consolidates, balances, and verifies the final bill that is ultimately sent to Montana to seek reimbursement for costs incurred by other entities.

At the last meeting of the LFC, the committee was advised that the bill had been audited and returned to the Forest Service for revision. The Forest Service corrected the errors and the bill has been returned to DNRC for payment. To date DNRC has paid \$3.6 million, a second payment of \$2.7 million is pending, and \$8 million has been verified, but sent to FEMA for reimbursement. The balance of \$20.7 million is still in process. DNRC auditors must verify the costs, collect appropriate documentation, and send any eligible expenses to FEMA for reimbursement. The department is seeking to resolve the Forest Service bill by December 31, 2004.

FEMA Reimbursement

The department anticipates receiving \$32.3 million of FEMA funding, of which \$19.8 million is outstanding. The state will experience some delay in receiving the balance of the funds owed. FEMA needs its federal fiscal 2005 appropriation to provide reimbursements to the state, and the current

priority with the federal agency is the Florida hurricanes. DNRC has established an arrangement with the Forest Service to time payments to them with the reimbursements from FEMA. This arrangement reduces the impact on DNRC's cash flow.

FIRE COST ESTIMATE -FISCAL 2005

The current fire season did not make a large impact on the fiscal 2005 budget in comparison to fiscal 2004 and the current average fire cost of \$7.0 million per fiscal year. According to the state forester, well-timed moisture throughout the season prevented a more active fire season. The table below illustrates the current estimate of fire costs in fiscal 2005.

Table 2 Fiscal 2005 and 2005 Biennium Estimated Fire Costs *		
Part 1		
FY 2005 Actual & Estimated Fire Costs		
Actual State Protection Costs as of September 21, 2004	\$	1,134,007
DNRC Budgeted Cost	\$	(50,000)
Estimated Remaining State Protection Costs	\$	1,488,608
Estimated Spring 2005 Fire Costs		500,000
Paid & Anticipated Obligations		<u>\$3,072,615</u>
Part 2		
Remaining Fire Cost to the State of Montana		\$3,072,615
Other Reimbursements - Received		\$0
Other Reimbursements - Anticipated - US Forest Service/BLM	\$	(819,677)
Paid & Anticipated Obligations		
Total Payments by Other Entities		<u>(819,677)</u>
2005 Preliminary Net Cost to the State		\$2,252,938
2004 Net Cost to the State (from Table 1)		<u>\$33,426,430</u>
Total 2005 Biennium Costs		\$35,499,368
* NOTE: All cost information is based upon the best available estimates at the time of completion and is subject to adjustment. Cost share fires are constantly in negotiation until final settlement.		

Fiscal 2005 Estimate

Part 1 of Table 2 represents the total estimated cost for fiscal 2005 to the DNRC and DMA. To date, \$1.1 million has been paid out, an additional \$1.4 million is anticipated for incurred costs, and \$0.5 million has been estimated for spring 2005 fires. Thus, the total estimated fire cost for fiscal 2005 is \$3.1 million.

Part 2 of Table 2 defines the net cost of fire suppression incurred by DNRC. The department is estimating the receipt of federal reimbursement of \$819,677 from the Forest Service and the Bureau of Land Management. No FEMA reimbursement is anticipated as no single fire or complex qualified for FEMA assistance. The anticipated net fire suppression costs for fiscal 2005 is \$2.3 million. Total cost for the 2005 biennium is estimated at \$35.5 million.

JGTRRA

Congress granted \$50 million in fiscal relief funds under the Federal Jobs and Growth Tax Relief Reconciliation Act to the State of Montana and imposed few limits on the use of the money. The decision was made to utilize these funds for costs associated with wildfires in fiscal 2004. Because this funding was available, and because estimated fiscal 2005 fire costs are low, DNRC at this time is not seeking a supplemental appropriation for fiscal 2005 in the 2007 legislative session. This situation may change if FEMA reimbursements for fiscal 2004 fires are not as high as estimated, and will not be known until January or February of 2005. This funding also prevented cash flow problems normally associated with the fire season.

An additional \$150,000 of JGTRRA funding for helicopter development was approved by OBPP in September. While this is not a direct fire suppression cost, it is fire related. Through the federal excess property program, the department procured salvaged cobra helicopters from which they built a fourth huey helicopter (parts for cobras and hueys are interchangeable) for the DNRC fleet. The aircraft was developed to reduce dependency on contract air support, augment current helicopter operations in times and areas of extreme fire activity, and provide temporary replacement of existing helicopters during times of required maintenance. This helicopter, named "calico" for its multiple colors prior to painting, became operational on August 2, 2004 and is housed in Helena.

AVERAGE FIRE COSTS

Average Cost of Fire Suppression			
Fiscal Year	Total Cost	Reimbursements	Net Cost
1999	8,303,438	(2,402,172)	5,901,266
2000	5,205,614	(914,375)	4,291,239
2001	54,925,104	(44,784,017)	10,141,087
2002	16,417,193	(3,549,700)	12,867,493
2003	6,710,688	(4,684,927)	2,025,761
2004 (estimate)*	79,615,534	(46,189,104)	33,426,430
2005 (estimate)*	3,072,615	(819,677)	2,252,938
5 Year Average Cost	<u>\$18,312,407</u>		<u>\$7,045,369</u>
7 year Average Cost (high and low included)	24,892,884		- 10,129,459
* Not included in the 5 year average calculation			

An average annual fire cost could be used as a planning tool to estimate the fire costs impact on state resources. Although other methods may be valid, the LFC reports have utilized a calculation based upon a seven year average, with the high and low years removed. As the figure shows, the State of Montana experiences a total average fire cost of \$18.3 million with an average net cost of \$7.0 million. This estimate has not changed since the last report. The fiscal 2004 fire cost is removed from the average as the high season and subsequently the fiscal 2005 fire cost is removed as the low season.

A straight seven-year average has been included in the table as reference. The seven-year average is slightly higher than previously reported. This is because the previous low year, 1998 for \$870,638, was removed from the seven-year average and replaced with a higher value low year, or 2005 at \$2.3 million. Either method demonstrates fire suppression costs are substantial to the state.

It is important to note that while these averages provide a snapshot of costs, they do not address the impact of fires on cash flow. For example, a delay at the federal level could result in reimbursement or grants that would not be received until after the end of the fiscal year in which they were incurred. Although the state would eventually receive reimbursement, costs would have to be paid several months before the actual receipt of reimbursement.

FUNDING OF FUTURE FIRE COSTS

Early summer rains provided fire and fiscal relief to the State of Montana in the short-term. However, two factors point to the conclusion that this level of cost cannot be assessed in the future: 1) Climatologists predict Montana moving towards a warmer/dryer weather cycle; and 2) Threats associated with insect infestation. An environment ripe for fire surrounds the state, and wild land fires are a part of Montana's future.

During the 2005 biennium, the legislature relied on one-time (JGTRRA) funding and uncertain FEMA funding to cover \$67 million in fire suppression costs. In future years, one-time funding may not materialize and fires may not meet FEMA requirements (as demonstrated in the fiscal 2005 season), Montana remains financially at risk.

The Legislative Audit Committee is currently researching issues associated with the cost of fighting fires, and a report is anticipated prior to the 2005 legislative session. The committee did not undertake a study of budget methodology, as that is the sole purview of the LFC. Therefore, in order to remain close to the wild land fire funding issue, members of the LFC may wish to consider a number of options related to wild land fire funding and could:

- 1) Propose legislation to create a task force to research alternatives to funding wild land fires with the requirement to provide detailed options in a report to the 2007 legislature.
- 2) Wait until the next interim and direct staff to research fire funding alternatives.
- 3) Take no action.